Committee on Ways and Means

H.R. 1, the "Medicare Prescription Drug and Modernization Act of 2003" Helps Stabilize and Enhance Employer-Sponsored Health Care Benefits for Retirees

Rising Costs Place Increased Pressure on Employer Health Plans — About one-third of Medicare beneficiaries receive retiree coverage from their former employers. While most of these people are satisfied with their coverage, employers are under increasing pressure to drop or reduce prescription drug coverage.

- According to IMS Health, prescription drug expenditures increased by 11.8% last year. In addition, the Kaiser Family Foundation found that private costs for retiree health coverage rose 16.0% in 2002. Most employers predict double-digit health inflation well into the future.

- By contrast, the national average increase in large employer costs of providing health benefits to active workers during the same time period was 13.7%, according to a report released by Hewitt Associates.

- Employer sponsored retiree health coverage has declined precipitously over the past 15 years. In 1988, 66% of large employers, those with more than 200 workers, provided health benefits. In 2002, that number slipped to just 34%.

Steps to Improve Medicare Will Help Ensure Retirees Continue to Receive Employer-Sponsored Coverage — H.R. 1 helps employers retain or expand their prescription drug coverage so that beneficiaries can keep their employer-sponsored drug coverage.

- The Medicare prescription drug bill allows employers who provide retiree health coverage to access federal premium subsidies for their retirees if they provide coverage that is at least as generous as the Medicare drug benefit ($250 deductible, 80-20 coverage from $251 to $2,000, and $3,500 catastrophic coverage.)

- Employers would receive 28 cents on the dollar for the drug costs of their retirees for costs between $250 and $5,000. In addition, employers will continue to receive the tax benefit for providing employer-sponsored health benefits. This subsidy encourages employers to continue to offer or even expand coverage.

- Employers do not have to comply with the numerous mandates in the bill, so long as they offer actuarially equal coverage.

- Maximum flexibility is granted to employers to continue their health plans. In addition, employers can provide premium subsidies for retirees that enroll in a Medicare prescription drug plan, either stand alone fee-for-service, Medicare Advantage or enhanced fee-for-service.

Program Improvements Will Stabilize and Strengthen Medicare – Program reforms to reduce the cost of Medicare will help employers by reducing the increases in the hospital insurance payroll tax and general revenue taxes. Because Medicare is more efficient, employers benefit.

- Stabilizes the Medicare+Choice program and then moves it to a competitive structure to bring greater efficiency to Medicare—allowing beneficiaries and taxpayers to share in the savings created by competitive efficiencies.

- Establishes a more complete model in 2010, comparable to the health benefits of every federal worker and Member of Congress.

- Introduces competitive bidding for Durable Medical Equipment, an area where Medicare overpays for items such as wheelchairs and bedpans.

- Introduces competitive bidding for currently covered physician administered drugs, an area the Inspector General of HHS estimates $1 billion in annual overpayments.

- Indexes the Part B deductible to program costs. In 1966, Medicare's $50 Part B deductible equaled about 45% Part B charges. Today's $100 deductible equals about 3% of such charges.